Official Minutes from the October 17, 2017 MCC Advisory Council Meeting

Millennium Challenge Corporation
Franklin Court, Suite 700, Rooms A and B
1099 14th Street, NW, Washington DC
October 17, 2017
9:00 am – 1:45 pm

Agenda

8:30 am – 9:00 am	Coffee and pastries
9:00 am	Call to Order and Welcome Jonathan Nash, Acting Chief Executive Officer Mima Nedelcovych and Tim Docking, MCC Advisory Council Co-Chairs
9:15 am	Remarks from and Discussion with DCO VP Robert Blau Robert Blau, Vice President, Department of Compact Operations
10:00 am	MCC Operational Updates Jon Richart, Deputy Vice President, Infrastructure, Environment and Private Sector (IEPS), Department of Compact Operations
10:15 am	Break
10:30 am	Private Sector Engagement and Leverage in the Northern Triangle Countries (El Salvador, Guatemala, Honduras) Jim Hallmark, Director, Finance, Investment and Trade

11:15 am	MCC and USGLC Engaging the US Private Sector Guest Speaker: Liz Schrayer, President & CEO, U.S. Global Leadership Coalition
12:15 pm	Lunch Service
12:30 pm	Working Lunch: Feedback for Early Stage Compact Development in Tunisia Oliver Pierson – Country Team Lead Tamara Heimur, Director – Finance, Investment and Trade
1:30 pm	Concluding Remarks Alex Dixon, Practice Lead/Senior Director, Finance, Investment and Trade
1:40 pm	Opportunity for Public Comment
1:45 pm	Meeting Adjourns

Welcoming Remarks, Introductions

Jonathan Nash, MCC's Acting CEO, opened the meeting and extended greetings to all members of the Advisory Council, thanking Council members for their continued commitment to MCC's work. Acting CEO Nash started by sharing that MCC has had a very busy and productive September that included signing the Nepal Compact and the Kosovo Threshold Program, meeting foreign leaders attending the United Nations General Assembly, and convening MCC's quarterly Board of Directors meeting. He also introduced new members of the executive team, including:

- Robert Blau, Vice President for the Department of Compact Operations
- Jeanne Hauch, Vice President and General Counsel
- Pam Stevens, Vice President for Congressional and Public Affairs

Acting CEO Nash shared highlights from the September Board meeting, noting that it was very productive and included high-level participation, including Deputy Secretary of State John J. Sullivan, new USAID Administrator Ambassador Mark Green, and Under Secretary of the Treasury for International Affairs David R. Malpass. He also highlighted that:

- The $525 million Côte d'Ivoire Compact was discussed and approved. The compact focuses on transportation and improving skills for employability and productivity.
- The Togo Threshold Program was presented, which is designed to pursue policy and institutional reforms in two key areas: information and communications technology (ICT) and land reform.
- In early November, MCC's annual country scorecards will be released; and

- During its December meeting, the Board will determine what countries are eligible for MCC assistance.

Acting CEO Nash also provided an overview of fiscal year 2018 priorities. First and foremost, MCC will focus on its core business – developing and implementing compacts and threshold programs and closing out successful programs. In addition, he mentioned that:

- The leadership team recently held a management retreat where it set out six-month priorities and fiscal year 2018 corporate goals.
- MCC is continuing an ongoing internal effort called NexGen to strengthen organizational health and effectiveness, including streamlining decision-making, improving organizational business processes and systems, enhancing operational agility, and leveraging and sharing lessons learned both internally and externally. He was pleased to announce that MCC recorded its highest level of employee satisfaction in the fiscal year 2017 Employee Viewpoint Survey in the agency's history – a significant milestone.
- Legislation that would allow MCC to pursue regional investments – one of the key suggestions outlined in the Advisory Council's letter to MCC earlier this year – is making its way through Congress.

Remarks and Discussion with Vice President Robert Blau

Vice President Blau thanked the Council for its commitment to MCC's work, provided an overview of his career with the U.S. Foreign Service, and offered impressions from his first trip overseas with MCC to Benin and Ghana.

He thanked the Council for taking the time to compile its April 2017 note to the new executive team. The note laid out a strategic framework for consideration to help focus the incoming team on specific areas where MCC could more effectively interact with the private sector. Blau noted that members of the acting leadership team have reviewed the letter, taken its recommendations to heart, and are making progress in some of the areas the Council encouraged them to pursue.

The letter provided three high-level aspirations:

1. Promote the agency – its track record, methodology and goals – within the U.S., compact country private sectors, and globally with other development partners;
2. Accelerate and routinize early contact and engagement with the private sector in the formulation stages of compacts; and,
3. Increase and scale MCC's impact through the creation of new engagement strategies, including regional compacts.

In agreeing with these three goals, Blau noted that bringing the private sector into the MCC compact development process, increasing U.S. private sector interest in MCC's partner countries, and enabling

MCC to work on a regional level will further enable MCC to serve American taxpayers, the private sector, and U.S. strategic interests – a win, win, win scenario.

Blau provided a few examples of ways MCC is pursuing the Council's suggestions, including involving the private sector in the compact development phase, reaching out to the private sector to publicize upcoming procurement opportunities – aimed at increasing the number of U.S. bidders on compact procurements, and in general, informing the U.S. private sector on trade and investment opportunities in the sectors where MCC works.

Given the Council's enthusiastic support of MCC sharing the agency's procurement, partnership, and private sector opportunities with American businesses across the country, Blau highlighted a few ways that MCC has been working to reach businesses across the country and encourage their participation in MCC-funded work. For example:

- This year, MCC joined other U.S. Government agencies like the Overseas Private Investment Corporation (OPIC) and USTDA to advance small business outreach. Over the past year, MCC partnered with OPIC in Oakland, California and Denver to showcase how the U.S. Government can partner with and support small businesses.
- MCC is partnering with USTDA, the Chamber of Commerce, and the local U.S Commercial Service in Austin, Texas to discuss MCC's programs in Latin America with a focus on upcoming procurement opportunities.
- Over the past year, MCC has worked with several partners, like the US Global Leadership Coalition (USGLC), Rotary, and the World Affairs Council to bring MCC's outreach opportunities to local audiences throughout the country in California, Colorado, Maryland, New York, Pennsylvania and Texas.

Lastly, Blau noted that MCC has been harnessing the expertise and resources of colleagues at the Department of Commerce's International Trade Administration to alert US businesses of procurement opportunities and pique their interest in working with MCC and MCA.

Consistent with the Administration's Executive Order, MCC has placed a high priority on increasing the number of American firms bidding on MCC opportunities. Blau also introduced members of compact operations teams that are focused on implementing the Council's suggestions and pursuing a broader strategy to increase U.S. private sector participation in MCC's work, including:

- Lona Stoll, MCC's Deputy Vice President for sector operations
- Prabhat Garg, MCC's practice lead for procurement
- Ryan Johnson, head of MCC's new office of strategic partnerships
- Alex Dixon, practice lead for MCC's finance, investment and trade team
- Pam Stevens, Vice President of Congressional and Public Affairs

MCC Operational Update

Deputy Vice President for Infrastructure, Environment and Private Sector Jonathan Richart offered operational-level updates. Richart welcomed the Council and noted that he was excited to be stepping into a leadership role for the team that most closely aligns with the backgrounds of most of the members of this Council. He said he was keen to hear the Council's thoughts and opinions on the compacts being discussed during the meeting and in the future. He outlined the following milestones in compact development:

Côte d'Ivoire

- Just a few weeks ago, MCC's Board of Directors approved a new $525 million compact with Côte d'Ivoire. The program is designed to support economic growth and private investment by building workforce capacity, reducing transportation costs, and opening new markets – benefitting the region and firms looking to expand their businesses. MCC is looking forward to signing the compact this fall.
- He noted that the Côte d'Ivoire country team was appreciative of the thoughtful contributions and the depth of expertise that was made available to the team through the Advisory Council.
- In particular, the Advisory Council's feedback was instrumental in advancing MCC's support for a truck parking and logistics center. The Council's input helped inform the conceptual design and decision to pursue this as a public-private partnership.
- And finally, with respect to the compact's technical and vocational training program, the team valued the Council's advice to focus on finding the right partners and look to local examples as well as international case studies. This feedback has been incorporated into the final project vision and will be integrated into the grant evaluations criteria for the technical and vocational education and training, or TVET, centers.

Nepal

- The Board also recently approved the Nepal Compact, and it was signed on September 14.
- The $500 million MCC investment will improve Nepal's power and transport sectors, with a focus on electricity transmission and road maintenance.
- The compact is MCC's first in South Asia, and includes an additional $130 million contribution from the Government of Nepal – an unprecedented upfront investment from a partner country and a clear demonstration of Nepal's commitment to the compact.

Kosovo

- On September 12, MCC and the Republic of Kosovo signed a $49 million threshold program. The program will support Kosovo's efforts to increase government transparency and accountability and strengthen the country's energy sector, including helping the country overcome barriers to private investment in the sector.
- The grant was signed at the Rayburn building on Capitol Hill – a first for MCC – and the team was pleased to be joined by House Foreign Affairs Committee Chairman Ed Royce and Ranking Member Eliot Engel.

Richart also noted a few other operational updates:

Partnership with The Coca-Cola Africa Foundation:

- MCC recently signed an MOU with The Coca-Cola Africa Foundation to further leverage resources and expertise to support sustainable economic impact in MCC partner countries in Africa. The Coca-Cola Africa Foundation President Dr. Susan Mboya was a featured speaker at the signing event.
- The MOU between MCC and The Coca-Cola Africa Foundation allows our organizations to continue engagement in individual partner countries, like Cabo Verde and Zambia, and acknowledge a broader strategic opportunity to increase our work together across Africa in mutual areas of interest.

Blended Finance:

- The Organization for Economic Co-operation and Development (OECD) will soon release Blended Finance Principles for its members. As has been discussed with this Council before, MCC sees itself as a key supporting actor in the development of the blended finance sector and will align our business practices to incorporate these principles.
- MCC intends to further its leadership role in this space through an upcoming event in London that will bring together key public and private stakeholders for in-depth discussions on how best to blend public and private capital to meet our partner countries' development challenges.

Private Sector Engagement and Leverage in the Northern Triangle

MCC's Jim Hallmark, director, finance, investment and trade, provided an insightful overview of MCC's work in the Northern Triangle that focuses on eliminating key barriers to investment in El Salvador, Guatemala and Honduras. In addition to providing a summary of MCC's program commitments in the region, he outlined three pillars of support MCC is offering for public-private partnerships (PPPs) in these countries:

- Specific project support to bring PPP projects to fruition
    - Screening and prefeasibility studies
    - Feasibility study
    - Transaction advisory services
- PPP coaching and support to key staff in relevant government agencies to establish procedures and practices for developing and managing PPPs
- PPP training – providing trainers to support certification of PPP professionals in key government agencies.

In addition, MCC is working with partner countries in the Northern Triangle to i) screen and prioritize potential PPP projects; ii) analyze, structure and tender PPP projects; and iii) manage PPP implementation. The programs in the Northern Triangle represent MCC's largest effort to encourage private investment to date.

Hallmark also provided a summary of PPPs in development across the region:

- In Honduras, MCC is supporting the government in structuring, financing and executing PPPs in the logistics corridor, including toll road concessions and border crossings.
- In Guatemala, PPP projects under development include a light rail and an international airport upgrade.
- In El Salvador, initial PPP projects are being reviewed under a new PPP law, including projects to build a cargo terminal, install street lighting, and construct a toll road.

Discussion:

Bob Prieto encouraged the team to look at the case of Brazil and ensure independent cost estimates are received. In addition, he highlighted that street lighting projects have their challenges and encouraged the team to seek outside expertise.

Alex Sarac highlighted a recent report that indicated 60 percent of concessions and PPPs are renegotiated within the first year of operation; and therefore, coaching and technical assistance upfront are essential in helping the government negotiate sound deals.

Ken Hansen encouraged the team to seek out the expertise and networks of trade associations in developing pipelines for transactions and generate interest is pre-screened projects.

Nilmini Rubin asked about steps that MCC was taking to address unconscious gender bias in its own operations. She also asked where companies that are interested in investing with MCC can find additional information about the opportunities.

Aaron Bielenberg asked whether MCC is achieving uniformity in contracts to serve as a model for other countries and regions. He advised that the PPP delivery units within MCC partner countries should be apolitical and independent and asked what type of technical assistance support MCC offers partner countries.

Alvin Rohrs encouraged the team to seek out NGOs, charities and philanthropies in partner countries as potential co-investors in mission-aligned projects and offered as an example a project in Guatemala. He suggested it as an opportunity to expand into and promote business opportunities within compacts by engaging U.S. firms through their charity and corporate social responsibility functions.

MCC and USGLC: Engaging the Private Sector;

Guest speaker Liz Schrayer, president and CEO of the U.S. Global Leadership Coalition (USGLC) was welcomed by Tim Docking, MCC Advisory Council Co-Chair, who provided introductory comments on USGLC's work to strengthen the United States' leadership role around the world by promoting the U.S. Government's diplomacy and development work. Schrayer thanked the co-chair for his remarks and began her comments with reflecting that the "MCC effect" has had an impact in Washington, D.C., stating the truly transformation role that MCC has played not only around the world, but also within the U.S. Government in re-thinking approaches to development by focusing on country ownership, measureable results and monitoring and evaluation.

Schrayer provided an overview of USGLC's work, noting that it is a coalition of over 500 organizations united to promote the importance of development and diplomacy in fortifying U.S. power around the world. She highlighted the work the coalition does to inform citizens, stakeholders, constituents, voters and government officials on the positive impact and benefit of the U.S. Government 's development work for the economy and national security interests.

Advisory Council members engaged Schrayer on USGLC's work and their advocacy for U.S. agencies engaged in diplomacy and development, particularly given concerns with proposed cuts to development and diplomacy budgets. Schrayer emphasized the broad bipartisan support that MCC garners and noted that it is seen as an agency that is delivering results. She engaged Council members in a discussion on the challenge of balancing messaging, the need to engage the private sector, and the importance of MCC being a catalyst for U.S. companies seeking to invest in our partner countries.

Feedback for Early Stage Compact Development in Tunisia

Oliver Pierson, the country team lead for Tunisia, and Tamara Heimur, director, finance, investment and trade on the Tunisia team, provided the Council with an overview of the compact development process to date. Pierson opened the presentation by providing an overview of the country context noting:

- Tunisia's democratic transition was relatively successful, and the economic transition from an era of heavy state intervention is still a work in progress.
- Tunisia is an important and long-standing partner for U.S. Government in a fragile region.
- The security situation is improving but terrorism remains a critical threat.
- Political will is there today and will need to be sustained during compact development and implementation.

Pierson reviewed the findings of the constraints analysis, emphasizing that:

- The Tunisia Compact will consist of investments designed to address binding constraints to the country's long-term economic growth potential.
- Binding constraints are those that, if relieved, would produce the largest gains in growth and entrepreneurship of any potential constraint areas.
- Identified constraints in Tunisia include:

- Excessive market controls
- Rigid labor market regulations
- Water scarcity in interior regions and the agriculture sector

Heimur presented preliminary ideas for compact projects that have been identified in consultations including:

1. Addressing market controls and reform
2. Potential investments and reforms to address and resolve water scarcity issues
3. Reforming labor market regulations

Pierson and Heimur concluded their comments by providing an overview of next steps in compact development, noting that concept notes are expected soon from their compact development counterparts in Tunisia. They expect to discuss an Opportunity Memo with the Investment Management Committee in early 2018 and will return to the Council in April 2018 with an update on progress.

Discussion:

Carolyn Campbell noted Tunisia's position as a player in the region, saying that it is a great country for a compact and could become a stable leader in North Africa with MCC's support. She also highlighted the opportunity for Tunisia's stock market to serve the region and the delays caused by capital controls as an issue for investors.

Kevin Moss questioned how the Tunisian government has responded to the findings of the constraints analysis. Oliver Pierson replied that the issues outlined in the analysis were well known to the Government and were generally welcomed.

Mima Nedelcovych highlighted the challenge of Tunisia being in a difficult neighborhood and that the government needs to clearly lay out what areas and sectors they will be competitive in, in order to attract investment.

Aaron Bielenberg emphasized that in order to improve water management, significant engagement would be required to transform the water utility. In addition, there are a number of new technologies that could be looked at for issues like managing water demand.

Nilmini Rubin highlighted the opportunity that this compact presents to MCC in dealing with big issues that other agencies can't tackle. She questioned the root cause of the constrained labor market, highlighted challenges in Tunisia with governance, and asked whether social or religious issues are at play and if new legislation was needed to address any of the identified constraints. The team replied that although the Government has passed many laws to address elements of the binding constraints, the follow-up and implementation have fallen short of expectations.

Megan Guy asked about the team's access to, and quality of, data on water scarcity, as the quality of water flow data is often questionable. She asked what has been done to date to address water scarcity and questioned promoting agriculture in the water-scarce interior of the country. The team offered that the data to date is relatively consistent and high-quality, and they have a good idea where leakages in water transport and storage networks are, and the team is looking at wastewater reclamation and recycling as potential projects, but noted that there are ecological and cultural issues to overcome. The team is looking to optimize the existing water supply through resolving leakages in the transportation of water where an estimated 40 percent of water is lost. For any agricultural project, a new agricultural map that matches crops with water availability could be used.

Mini Roy questioned the finding that access to finance was not a binding constraint to growth, particularly given the challenges women face in accessing finance.

Ken Hansen noted the extensive regulatory constraints highlighted by the team and the challenge of fixing them within a five-year timeline.

Bob Prieto noted that given the size and fragility of Tunisia, small and quick solutions are needed. One idea he has seen work to address labor market constraints in other countries is the formation of labor cooperative companies where employees are employed by the cooperative and hired out to other enterprises in need, but unwilling to take on additional, full-time, salaried employees given labor market restrictions. He also presented the idea of developing "Special Activity Zones" in the interior that would attract investment and test out approaches to regulatory reforms. Targeting specific areas would allow MCC and the GoT to move more quickly, which is critical during this transitional period for Tunisia, and to learn from the reforms before implementing them more broadly.

Alvin Rohrs noted that Tunisia presents an excellent case study that democracy wins. He questioned the focus on developing the interior of the country when all trends, movements and developments point to a world where people want to be urban and coastal. He urged the team to focus on the areas where people are moving and create jobs there. He highlighted the opportunity to create a market for water in Tunisia where it carries a value and price that is reflective of its scarcity – where it is tradable and able to be sold and bought on an open market or through a mobile device. He also suggested the team look at state-owned enterprise privatization and the opportunity to issue shares and turn the SOEs over to the private sector.

Alex Sarac offered insight on special economic zones and noted that they are intended to support investment where legal and regulatory frameworks do not exist in the country, but have rarely worked or been effective. Many stand empty across Africa. If Tunisia has an investment climate that is not functioning well already, creating a special economic zone only creates another layer of bureaucracy.

Nilmini Rubin encouraged the team to focus on country-wide reforms rather than smaller pilot projects or "Special Activity Zones" that might enable the status quo to continue outside the zones. With a fairly small geographic footprint and about 11 million people, Tunisia presents a great opportunity to leverage MCC funds for significant and transformational change.

Joe Dougherty questioned whether, given the size of the Tunisian Government, it would be possible to move processes or agencies to the interior of the country to support development and economic growth. He noted that labor market reforms need to be sequenced with market reforms first to increase the demand for labor. He encouraged the team to build constituencies around and within industries to support reform.

Tim Docking highlighted that given Tunisia's significant human capital, MCC and the GoT should consider how Tunisia can use that talent to grow their ICT sector and engage in the knowledge economy.

Opportunity for Public Comment

There were no public comments at the meeting. The following comment was submitted to the MCC Advisory Council inbox in advance of the meeting:

Jean Publicc wrote: *i am in favor of shutting down this govt agency immediately. i am in favor of america first. we have extreme devastation in florida, texas, puerto rico and northwest america from fires and this sending any american tax dollars to tunisia or northern triangle makes no sense at all to me. the american pubilc is so sick at being ripped off for all our tax dolalrs to go around fixing up the world and meanwhile we turn into a third world country. this is unacceptable. this is slime corrupt washington dc that needs change.*

we are sick of this taking of our tax dollars for everybody else but us. change is needed. change should be coming. this comment is for th epubilc record plese receipt.

Advisory Council Members Present:

- Aaron Bielenberg, McKinsey & Company
- Carolyn Campbell, Emerging Capital Partners
- Timothy Docking, Cognitiks (Advisory Council Co-Chair)
- Robert Dove, Carlyle Group (retired)
- Joe Dougherty, Dalberg Global Development Advisors
- Scott Eisner, U.S. Chamber of Commerce
- Megan Guy, The Nature Conservancy (by phone)
- Kenneth Hansen, Norton, Rose, Fulbright, LLP
- Mima Nedelcovych, Initiative for Global Development (Advisory Council Co-Chair)
- Bob Prieto, Strategic Program Management, LLC
- Alvin Rohrs, Enactus (retired)
- Mini Roy, Metis Markets LLC
- Nilmini Rubin, Tetra Tech
- Alexander Sarac, Berwin Leighton Paisner
- Marta Urquilla, Beeck Center for Social Impact and Innovations, Georgetown University

- Kevin Moss (in Manish Bapna's stead), World Resources Institute

Guest Speaker

Liz Schrayer, President and CEO, U.S. Global Leadership Coalition

Advisory Council Members Absent with Apologies:

- Aubrey Hruby, *Africa Expert Network; Atlantic Council*
- Del Renigar, *General Electric*
- Patricia Sheikh, *Corporate Council on Africa*

Annexes

- MCC Support for Private Investment in the Northern Triangle (PDF)
- MCC Advisory Council Briefing Memorandum: Tunisia Compact (PDF)
- MCC Advisory Council Tunisia Compact Development Update (PDF)
- Written Feedback from Advisory Council Members Regarding Tunisia Compact Development (below)

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MCC Advisory Council: Written Feedback – Tunisia

Carolyn Campbell, Emerging Capital Partners

I generally support the notion of a compact with Tunisia, without having a concrete idea of the potential goals of the compact at this stage. I believe Tunisia could serve as a model frontier country for investment in the North, which it used to do until the political changes (now Morocco seems to be the frontrunner). In order to do this, the compact should focus on capital controls that were initiated after 2012, making it much harder to get properly invested foreign capital inflows back out of the country.

The stock market is another area where Tunisia could serve as a regional player, given their experience with listings and their network of local brokerage houses.

I look forward to the discussion and learning more about the potential goals of the compact, understanding they have not yet been developed.

Bob Prieto, Strategic Program Management, LLC

After reviewing the briefing memorandum on Tunisia, let me offer the following comments:

- The constraints outlined are well articulated and largely as one might expect. They also provide good guidance on focal points for impactful actions
- The problem statements are comprehensive but require a sharper focus to ensure concrete progress can be made in reasonable timeframes.
- A focused first step must address institutional, economic and technical needs.

I would offer the following recommendations for a first step under the compact:

- Aid the Tunisian government in the creation of a **Special Activity Zone (SAZ).** I have deliberately avoided the use of the term Special Economic Zone since I think the nature of what is to be accomplished goes well beyond economics.
- Focus the SAZ initially on the agriculture sector in the four interior regions. At a subsequent phase, consider expanding to agro processing.
- Within the SAZ work with the government of Tunisia to develop and implement a lighter more flexible regulatory framework. This would include relaxation of select price fixing and subsidies in a phased manner linked to triggers related to economic and other growth in the SAZ. The SAZ should be seen by the government of Tunisia as a **regulatory test bed**.
- SAZ should encourage foreign direct investment in improvements to agricultural activities in the zone. Government regulations that pose barriers should be addressed in the establishment of the SAZ. FDI should be linked to expansion of the workforce in the SAZ, specifically highlighting the need for gender neutrality.
- Implement improvements focused on reducing water scarcity and remove water subsidies as the supply situation improves.
- Reduce water scarcity in a phased way:
    - Reduce system losses in areas of highest loss. Technologies such as LIDAR and others will aid in detection of water losses. Use the 80/20 rule and target the biggest losses.
    - Reduce agricultural water use in the SAZ by implementing drip and other arid area irrigation techniques. This must be linked with removal of water subsidies in the SAZ.
    - Increase water capture and storage both inside and outside of the SAZ and evaluate the level of evaporative losses in existing reservoirs. As appropriate, implement structural solutions to limit evaporative losses.
- Implement agricultural yield improvements as water scarcity is relieved as a constraint.

Tim Docking, Cognitiks

- Given Tunisia's relatively high levels of literacy, infrastructure (?), wealth, social stability *and* unemployment, it seems like a good candidate for a new generation of compact.
- A recent CSIS report called for "Innovation-led economic growth" (see attachment)[the report is worth skimming if the team hasn't seen it already and has pretty good notes that they may want to see. At least the team should consider the report's POV: Development professionals need to support local development of science, innovation and technology.]
- I imagine MCC appreciates all the work Tunisian academics, the private sector and the GOT has done in the innovation space. MCC would thus be wise to understand: While serving as a light

manufacturing hub, and as the francophone and Arab world's back-office has been important for economic growth, Tunisians want to take the next step (e.g. India) and grow local technology and innovation.

- Along these lines – the water problem: I think there is a lot of work on desalination being done. I know IBM has been working on nano/membrane desalination technologies for a long time and imagine others have too. Don't be put off by "old thinking" on desalination: i.e. it's too expensive, power hungry, etc. It's a problem that should be looked at with fresh eyes given new technologies and perhaps involve a creative partnership (building on other MCC blended finance models) focused on this vital issue…

Other thoughts:

- On the question of, Who to speak to? Don't forget people like John Hewko at Rotary (partnerships/contacts with businesses think tanks, etc.); John Danilovich, Paris-based at ICC (Partnerships/contacts, etc.) – and RTI who apparently have done a lot of work on innovation/develompent. These could be some good starting places and all will be friendly to working with MCC.
- On Tourism Sector: I'd stay away from it given terror attacks in recent years.
- On policy and market reforms: The team needs to have a member with a deep understanding of how, and with whom the French are connected to the Tunisian economy. As MCC and the local team consider conditions precedent and policy changes (deregulation, and market controls) they could probably save a lot of time by understanding where the resistance will come from. Perhaps partnerships are explored with French partners (?).
- On getting into the interior regions/outside the cities: It seems like Ag, water and innovation would be important to diligence.
- What about Oil/developing the vertical integration of the sector?

Kevin Moss (in Manish Bapna's stead), World Resources Institute

General

How do you support investments in areas that have security concerns, water scarcity, or infrastructure constraints?

> Encouraging participation from civil society groups to promote communication between the private sector and actors on the ground.

How can Tunisia capitalize on their proximity to European and Sub-Saharan African markets and what is its comparative advantage versus peer countries? Are there specific companies that may want to invest?

> Tunisian economy is mostly focused on services (61.1%) versus industry (28.3%), however, textiles are a part of their major industries which as seen a shift to African countries from south and south east Asia and could be a focus of the industry
>
> As part of the francophone region, they have openings to embracing more tourism, and engaging in French businesses.

How might we become aware of and exploit technology to achieve our compact objectives (ie: labor market data collection, customs systems, e-government, etc.)?

Who else should we be talking to about Tunisia? Are there companies, funds, local or international businesses, associations, think tanks, etc. that should be in our outreach plan?

> Two Tunisian companies with climate targets, both rail companies – Société Nationale des Chemins de fer Tunisiens (SNCFT) **and** Société Tunisienne du réseau ferroviaire rapide (RFR) – the RFR in particular as it states that it wants to create a Rapid Railway Network in Tunis so would be good to reach out to them to engage in climate smart infrastructure.

Market Reforms

How might we select and prioritize reforms that will attract private investment, maximize job growth, and impact poorer interior regions and communities?

> 2016 Foreign Direct Investment was concentrated in energy (47%) Electrical and electronic industries (17%), pharmaceuticals (6%), agro-food (6%) and ICT (5%) but these investments were focused on Tunis as poor infrastructure in the interior.
> Promoting infrastructure enhancement in the interior could help more equally disperse the FDIs and draw economic development to the interior of the country and formalize economies as well.
> Infrastructure needs
> A good start is the investment from the French Development Agency (AFD) has renewed its EUR 1.2 billion commitment to finance projects over the next five years. Ensuring this investment helps increase infrastructure capacity in rural areas will help spread development farther than Tunis and the coasts.

How might we better engage the local private sector in the reform agenda? US businesses?

> Banking is 90% of financing in Tunisia – slowing the economy, efforts to diversity financing mechanisms would help improve resilience in the Tunisian government
> establishing frameworks for business accountability for corporate citizenship and bring in non-state actors in urban planning and implementation.

By loosening controls/subsidies, we may hurt businesses and employment in the short term; how should we sequence and mitigate this?

Water

How might we incentivize the private sector to conserve water, particularly given that both water and power are subsidized?

> Water recycling technologies increasing: Work with the private sector to conserve water (Water sector's main operators are SONEDE (Société Nationale d'Exploitation et de la Distribution des Eaux), DGGR (Direction Générale du Génie Rural) and ONAS (Office Nationale de L'Assainissement).
> Note the reference to increasing desalination and the energy (and therefore potential carbon) intensity of desalination.

What types of investments could allow us to attract businesses to the interior regions while also conserving water?

Labor

What reforms are feasible given the strength of Tunisia's labor unions?
How does MCC remove labor protections without exacerbating near term unemployment and political instability?

Mini Roy, Metis Markets

General Observations

- *The MCC compact focus seems to be specifically addressing Pillar 1 & 2 (investment and labor policy), and Pillar 5 (Water)?*
- *What is the team's understanding of the highest multiplier factor for development?*
- *Is the main effort to address physical bottlenecks for development (water) or policy/regulatory bottlenecks that impact speed of economic activity?*
- *Given Tunisia's traditionally statist economic structure, how much of MCC's support will be directed to encouraging private sector vs supporting Government investment?*
- *The labor unions and government would seem reluctant to cause greater unemployment – can MCC policies support growth of SOEs and the private sector so that the overall economic pie increases.*

General

How do you support investments in areas that have security concerns, water scarcity, or infrastructure constraints?

> Water and related infrastructure issues are "mechanical" solutions – the questions relate to financing. In a country where basics seem to be subsidized, solutions based on payment at retail/local levels have political implications and those for receivables collection. Can the government at federal level support repayment (and maintenance) of these assets? Efforts to ease security issues impacting investment have included extensive local consultation with broad stakeholders, local social investments (e.g. related investments in education/training, healthcare, housing etc) and monitoring/implementation plans that coverat least the repayment life of the asset. Local investment and ownership is key with safeguards for investors to avoid expropriation of the asset.

How can Tunisia capitalize on their proximity to European and Sub-Saharan African markets and what is its comparative advantage versus peer countries? Are there specific companies that may want to invest?

> No comments other than there has been talk of regional cooperation/markets. Not sure about current trade options with Sub-Saharan Africa; could the team elaborate?

How might we become aware of and exploit technology to achieve our compact objectives (ie: labor market data collection, customs systems, e-government, etc.)?

> Would the MCC Compact support development of these information systems?

Who else should we be talking to about Tunisia? Are there companies, funds, local or international businesses, associations, think tanks, etc. that should be in our outreach plan?

> Presume that MCC works with global and regional multilateral institutions that have done research (usually in conjunction with the government) and uses consultants to review. In Tunisia's

case, there is research from French and EU think tanks and financial institutions. How would MCC support deal with the dominance of the banking system and the limited impact of the stock markets? Research sccess to equity & debt capital for non-SOE/new local firms? Reliability (existence) of supply chain financing from to support regional production (to check with main exporters/importers)

Market Reforms

How might we select and prioritize reforms that will attract private investment, maximize job growth, and impact poorer interior regions and communities?

It seems to me that the first two objectives are not necessarily congruent with the third. Support for the poorer interior regions, given population distribution and skills, will be unlikely to provide adequate returns for private investors and impact on employment (in numbers) likely to be greater in the north. However, the government had has success with its mix of tax and investment policy in the export zones – can this success be replicated in the south – perhaps for industries that are not water intensive?

How might we better engage the local private sector in the reform agenda? US businesses?

The US Chamber of Commerce is a good access point as always for US business but generally focuses on opportunities with the state sector, I believe. The local private sector is typically dependent on the state banks – MCC could engage with the lending groups in those banks to assess what criteria they are using and help develop a quick loan approval process. Supply Chain finance could help grow local firms either via export zones or through SOEs (as per comment above, interested to understand the supply chain with Sub Saharan Africa). EBRD/CGAP had expressed interest in financing microfinance (vs. microcredit) post revolution – their microfinance partners like Enda could provide insight. Research has shown than in countries where social restrictions on women remain, entrepreneurship is the fastest entry point to participation – microfinance/SME lending provides support to both economic growth and female participation.

By loosening controls/subsidies, we may hurt businesses and employment in the short term; how should we sequence and mitigate this?

Very politically fraught question. The MCC team should prioritize eliminating regulations that hamper economic activity/investment first eg multiple govt approvals and promote competition so that growing firms support the existing employees and add more – is this possible?

Water

How might we incentivize the private sector to conserve water, particularly given that both water and power are subsidized?

Understood that the main water losses seem to be from the poor infrastructure – is this the “big rock” problem to be prioritized?. Can SOEs be incentivized to support conservation – eg federal to region grants? At a retail level, alongside education, legislation (hard to enforce & encourages corruption) calibrated pricing policies may be effective i.e. raising prices (no information on collection of water fees – would installation of meters/improved collection offset the need to raise prices) together with incentives to invest in water conservation e.g. households that reduce usage get credits

What types of investments could allow us to attract businesses to the interior regions while also conserving water?

Labor

What reforms are feasible given the strength of Tunisia's labor unions?
How does MCC remove labor protections without exacerbating near term unemployment and political instability?

Robert Dove, Carlyle Group (Retired)

I am not sure what value the AC can provide at this early stage. Clearly this is a country of strategic importance given the well documented history and I am sure that any compact will have support from your board. The security around developing a project should be discussed. Will private sector companies be willing to invest alongside MCC in a country like Tunisia? Tourism has been badly hit after the beach terrorist attack and it will likely take some time to recover (The press reports that one of the factors in the recent bankruptcy of the UK airline – Monarch was the loss of traffic to Tunisia). The paper suggests that the priority should be around projects away from the coastal region although none are identified – too early? Given the shortage of water it is unlikely that an industrial base could be developed. Could solar or wind projects work?

Looking forward to a robust debate.